

## Message Text

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ACTION SS-14

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E.O. 11652: N/A  
TAGS: EFIN, IT  
SUBJECT: ECONOMIC SITREP NO. 30, MONDAY, DECEMBER 13

REF: ROME 20160

1. SUMMARY. FIRST REVALUATION OF GOLD COLLATERAL UNDER NEW TERMS OF GERMAN LOAN PERMITS FURTHER DRAWING OF \$200 MILLION. UNIONS WILL MEET WITH GOVERNMENT DECEMBER 15 TO HEAR RESPONSE ON INVESTMENT AND EMPLOYMENT PLANS AND TO STATE WILLINGNESS TO DISCUSS BREAKING THE COST-OF-LIVING ESCALATOR'S LINKAGE WITH SEVERANCE PAY COMPUTATIONS IN RETURN FOR PROMISE OF NO ADJUSTMENTS TO THE MECHANISM ITSELF. UNION MEETING WITH CONFIDUSTRIA ORIGINALLY SCHEDULED FOR TODAY WAS POSTPONED UNTIL AFTER MEETING WITH GOVERNMENT. COUNCIL OF MINISTERS APPROVED PLAN TO STIMULATE CONSTRUCTION INDUSTRY. LIRA RATE UNCHANGED WITH DEMAND FOR DOLLARS CONTINUING AT LOW LEVEL. END SUMMARY

2. ITALY OBTAINS \$200 MILLION MORE FROM GERMANY ON REVALUED GOLD. FIRST REVIEW OF GOLD COLLATERAL VALUE UNDER LOAN RENEWAL TERMS AGREED UPON IN SEPTEMBER (WHICH PROVIDED FOR QUARTERLY RE-EVALUATION OF VALUE OF GOLD IN ACCORDANCE WITH CURRENT MARKET PRICES) RESULTED IN UPWARD REVALUATION OF GOLD COLLATERAL OF OUTSTANDING \$1.5 BILLION LOAN FROM GERMANY.

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RATHER THAN RECLAIMING ABOUT \$200 MILLION OF COLLATERAL,

ITALY OPTED FOR INCREASE IN LOAN BY \$200 MILLION ON SAME AMOUNT OF COLLATERAL. SEE SEPTEL DECEMBER 13.)

3. UNIONS TO MEET WITH GOVERNMENT DECEMBER 15. UNIONS WILL MEET WITH GOVERNMENT ON DECEMBER 15 AND STATE THEIR WILLINGNESS TO CONSIDER BREAKING THE LINK BETWEEN THE COMPUTATION OF SEVERANCE PAY AND THE WAGE COST-OF-LIVING ESCALATOR ON THE CONDITION THAT THE GOVERNMENT (AND CONFINDUSTRIA) WILL PROMISE "NOT TO TOUCH" THE ESCALATOR MECHANISM (EXCEPT THAT UNIONS ARE WILLING TO "HOMOGENIZE" PRESENT INEQUALITIES). UNIONS ALSO READY TO DISCUSS CONCESSION IN OTHER AREAS TO REDUCE LABOR COST SUCH AS ABOLISHED HOLIDAYS, STAGGERING VACATIONS, NEW OVERTIME CRITERIA, INCREASED SHIFTS AND INTERNAL MOBILITY. (UNIONS WERE SCHEDULED TO MEET WITH CONFINDUSTRIA DECEMBER 13 BUT REQUESTED POSTPONEMENT UNTIL AFTER MEETING WITH GOVERNMENT. MEETING MAY BE DELAYED UNTIL AFTER UNIONS REPORT BACK TO RANK AND FILE ON JANUARY 7-8.) WHILE BOTH GOVERNMENT AND CONFIDUSTRIA WILL WELCOME OFFER TO BREAK SEVERANCE PAY/ESCALATOR LINKAGE, NEITHER ARE LIKELY TO THINK THIS MEASURE ALONE WILL REDUCE LABOR COSTS SUFFICIENTLY. CONFIDUSTRIA SOURCE STATED TO PRESS THAT ONLY SAVINGS WOULD BE ON ACTUAL SEVERANCE PAYMENTS MADE DURING COURSE OF A YEAR AND WOULD ONLY SAVE IN ANY ONE YEAR ABOUT 0.2 PERCENT OF LABOR COSTS TO INDUSTRY, OR 70 BILLION LIRE. THE UNIONS HOLD HOWEVER, THAT ON THE BOOKS, THE LESSER COST OF LABOR WORKS FULLY IN FAVOR OF BUSINESSES AND CALCULATED ON THIS BASIS THE SAVING IN 1977 ALONE WOULD BE 480 BILLION LIRE AND WOULD GROW IN SUCCEEDING YEARS.

4. COUNCIL OF MINISTERS APPROVES INCENTIVE PACKAGE FOR CONSTRUCTION INDUSTRY. IN MEETING ON DECEMBER 10, COUNCIL OF MINISTERS APPROVED DRAFT LAW WHICH, IF APPROVED BY PARLIAMENT, WOULD PROVIDE 3,600 BILLION LIRE OF ASSISTANCE OVER 10 YEARS TO THE CONSTRUCTION INDUSTRY. WHILE THE OVERALL PLAN COVERS 10 YEARS, FINANCING IS EXPECTED TO TAKE PLACE IN THE FIRST THREE-YEAR PERIOD 1977-1979. OF THE TOTAL PACKAGE, 2,100 WILL GO TO AUTONOMOUS INSTITUTES FOR CONSTRUCTION LIMITED OFFICIAL USE

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OF LOW-INCOME HOUSING AND 1,500 BILLION LIRE WILL BE AVAILABLE FOR CONSTRUCTION OF BUILDING BY COOPERATIVE AND BUSINESSES IN GENERAL. THE CASH EXPENDITURE IN 1977 WILL BE COVERED THROUGH THAT PORTION OF INCREASED REVENUES IN THE AUSTERITY PACKAGE EARMARKED FOR INVESTMENT; I.E., 1,600 FOR INDUSTRIAL RECONVERSION, YOUTH EMPLOYMENT AND HOUSING.

5. MONEY MARKETS. DECEMBER 13 LIRA/DOLLAR RATE UNCHANGED  
AT 865.35 (865.30 ON FRIDAY, DECEMBER 10). VOLUME  
CONTINUES LOW. BEAUDRY

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